Impact of Tariff Policies on Private Equity

Youci Yang[1*]

[1]School of Finance, Nanjing Agricultural University, Nanjing, Jiangsu Province, China

Abstract. This paper reviews the literature on tariffs and private equity. It shows the state of tariff changes and the important role of private equity in economic and business development in today's world, represented by the United States. By reviewing the economic development under the influence of tariff policy and the related contents of private equity investment, this paper focuses on the impact mechanism of tariff policy on private equity investment in the global economic environment of unstable trade policy, mainly including the impact of tariff policy on private equity investment's industry investment preference and decision-making, the valuation of private equity subject companies, cross-border mergers and acquisitions, and the exit path of private equity investment. This paper summarizes the impact of tariff policy on private equity investment. In addition, this paper summarizes the feasible measures for private equity institutions to cope with the risks and uncertainties brought by the tariff policy.

1 Introduction

Uncertainty in the global trade environment has increased significantly in recent years. In 2025, the U.S. government has imposed multiple rounds of tariffs on a wide range of Chinese imports, with rates gradually increasing from 10% to 145%. In response, the Chinese government has also imposed tariffs ranging from 10% to 15% on some U.S. goods and, in April, imposed tariffs ranging from 34% to 84% on all imports from the United States. These changes in tariff policy have not only affected the international trade landscape, but have also had a profound impact on global capital flows and investment decisions.

In this context, changes in tariff policy not only affect the international trade pattern, but also have a far-reaching impact on global capital flows and investment decisions. Sheng Bin et al. pointed out that the United States has imposed high tariffs on the core areas of this deficit so that the defensive protection of the local industry at the same time, but also for the reshaping of the high-end manufacturing advantage to fight for the window period [1]. By comparing the outward investment under different levels of trade policy certainty, it has been concluded that the decline of trade policy uncertainty significantly promotes the outward foreign direct investment activities of China's enterprises [2]. In addition, many scholars have studied and proposed the important role of private equity in the global economy. For example, Mike, Ken Wright, and Robbie combined the framework of industry/market and firm-level analysis to propose the important role of private equity and venture capital at different levels

* Corresponding author: yangyouci2025@outlook.com

[3]. However, existing studies have examined the impact of tariffs and private equity respectively, without explicitly analyzing the relationship between the two.

Against the background of profound changes in the global economic landscape, private equity investment, as an important force in promoting corporate innovation and economic growth, may be significantly affected by changes in tariff policies in its investment decisions, valuation and exit mechanisms. This paper aims to fill the gaps in existing research by conducting an in-depth analysis of the impact mechanism of tariff policy on private equity investment, so as to provide valuable references and guidance for private equity investors and related financing enterprises. This paper will focus on the following core questions:

How does tariff policy affect the industry preference and investment decision of private equity investment?

What is the specific impact of tariff policy on the valuation of private equity investment target companies?

How does tariff policy change the exit path and mode of private equity investment?

How do private equity firms cope with the risks and uncertainties brought by tariff policies?

Through the above research, this paper expects to provide new insights for understanding the complex relationship between tariff policy and private equity investment, and provide useful references for relevant stakeholders.

2 Private equity global capital allocation and investment preferences

2.1 The important role of private equity in the global economy

Private equity plays a crucial role in the global economy, which not only provides financial support to enterprises, but also promotes their growth and development in many ways. At the level of private equity portfolio companies, Davis et al. found that private equity significantly increased firm productivity in U.S. buyouts from the 1980s to the early 2000s [4]. This enhancement is mainly reflected in the enhancement of the firm's operational efficiency, resource allocation optimization, and technological innovation capability. Through the introduction of professional management experience and technical resources, private equity investment helps enterprises optimize internal management processes and enhance productivity, thus occupying a more favorable position in market competition.

In addition, enterprises that receive private equity investment usually have higher survival rates and better performance, which is reflected in the proportion and scale of public listing [5, 6]. The involvement of private equity not only provides financial support to enterprises but also helps them to improve their market competitiveness and brand value by participating in their strategic planning and operational management. This support enables enterprises to better cope with challenges and achieves sustainable development in the face of market fluctuations and industry competition. For example, many startups have been able to rapidly expand their production scale, increase their market share, and ultimately achieve successful initial public offerings (IPOs) after receiving private equity investment.

Wang Xiaona and Yan Li suggested that the introduction of private equity investment by enterprises can broaden their financing channels, alleviate the problem of enterprise financing difficulties, and reduce financial risks [7]. In the current complex economic environment, enterprises are facing financing pressure in many aspects, including the increase in the threshold for bank loans and limited direct financing channels. As an important direct financing method, private equity investment provides enterprises with diversified sources of funds. Through the introduction of private equity investment, enterprises can not only obtain financial support, but also leverage professional experience and resource network of investment institutions to optimize the capital structure of enterprises, reduce financing costs, and thus enhance the risk-resistant ability of enterprises.

Zhang Shaoyong and other scholars summarize the three roles of private equity investment, i.e., to alleviate the financing problem, to participate in the company's operation and management, and to transmit the signal of good development prospects [8]. Private equity investment not only provides financial support for the enterprise but also helps the enterprise to improve the management level and operational efficiency by participating in the daily operation and management of the enterprise. In addition, the involvement of private equity investment also sends a signal to the market that the enterprise has good development prospects, which helps to enhance the market value of the enterprise and investor confidence. This signal effect is especially important in the process of enterprise financing, which can help enterprises obtain more favorable conditions in the subsequent financing activities.

Xu Hao and other scholars have also suggested that the introduction of private equity can significantly improve the level of innovation and increase the R&D investment of enterprises [9]. Private equity investment institutions usually have rich industry experience and professional background and can provide strategic guidance and technical support for enterprises to help them improve their innovation ability. By increasing R&D investment, enterprises can develop more competitive products and services and thus take the lead in the market. This innovation-promoting role not only contributes to the development of the enterprise itself, but also positively affects the technological progress and industrial upgrading of the entire industry.

These studies have shown that the addition of private equity can improve the business performance of enterprises and also provide important support to start-up SMEs to promote their subsequent listing and development [10].

2.2 Investment preferences of private equity

The process of private equity investment is usually divided into three stages: angel investment in the start-up stage of an enterprise, venture capital in the growth stage, and mergers and acquisitions (M&A) in the exit stage. This process covers all stages of an enterprise's development from founding to maturity, and private equity plays a different role in each stage.

In the angel investment stage, government-guided fund sub-funds focus on hard technology and frontier areas such as semiconductors, biomedicine, and green economy [11]. These fields usually have higher technological thresholds and greater development potential, but they are also accompanied by higher risks. By providing financial support, angel investors help enterprises complete technology validation and initial market exploration, laying the foundation for their subsequent development. The role of government guidance funds is particularly important in this stage, which can not only provide financial support for enterprises, but also promote the breakthrough of key core technologies and industrial development through policy guidance and resource integration [12].

At the stage of venture capital, the strategic synergy of industrial capital has a higher proportion than that of financial investment, and still prefers cutting-edge fields and high-tech fields such as electronic information, new energy, and biomedicine [11]. Enterprises at this stage have usually completed initial technology validation and market exploration, and entered the rapid growth period. By providing financial support and strategic guidance, venture capital organizations help enterprises expand their production scale, increase their market share, and promote their technological innovation and business model innovation. The strategic synergy of industrial capital is particularly prominent at this stage, which can help enterprises enhance their competitiveness and realize rapid development through industry chain integration and resource sharing.

In the exit stage, IPO has a better platform for technology-based enterprises [11]. Through public listing, enterprises can obtain more financial support, enhance brand awareness and further expand market share. At the same time, IPO also provides a good exit channel for private equity investment institutions to maximize investment returns. In addition, M&A is also one of the important exit methods for private equity investment. In the M&A stage, private equity institutions usually prefer enterprises with stable cash flow and room for cost optimization. Through M&A integration, enterprises can achieve optimal allocation of resources, improve operational efficiency and further enhance market competitiveness.

Private equity firms will avoid tariff-sensitive industries during the investment process, such as traditional manufacturing and areas that rely on cross-border supply chains, for example, automobile manufacturing. This preference reflects private equity's sensitivity to industry risks and its pursuit of high-return areas. Traditional manufacturing and cross-border supply chain sectors usually face higher tariff risks and policy uncertainties, which may lead to higher operating costs and lower market competitiveness. Therefore, private equity institutions prefer to invest in areas with higher technological content and lower policy risks in order to maximize investment returns.

Private equity institutions usually consider the short-term returns and long-term development potential of enterprises in their investment decisions. According to the data of VC firms investing in GEM companies in 2010, industry, software services, and healthcare are the three areas with the strongest private equity support, accounting for 24.59%, 16.39%, and 16.39% of all GEM companies receiving investment respectively. Among them, software services have the highest average investment amount of 53.793 million yuan, which is more than 50% higher than the average investment amount of all companies of 32.3259 million yuan; followed by new materials, with an average investment amount of 35.8913 million yuan [13]. The investment preference of private equity not only reflects private equity's keen insight into the industry development trend, but also its active pursuit of high-return areas.

To summarize, private equity investment prefers technology innovation, healthcare and other fields, and the importance of environmental, social and governance (ESG) is becoming more and more prominent. In the M&A stage (Buyout), it prefers companies with stable cash flow and room for cost optimization. This investment preference not only helps private equity institutions maximize investment returns but also provides important support for the sustainable development of enterprises and social and economic progress.

3 The impact of tariff policies on private equity investment

3.1 Trade and private equity investment under the “reciprocal tariffs” policy

Against the backdrop of increased uncertainty in the current global trade environment, the U.S.-led “reciprocal tariffs” policy has had far-reaching impacts on international trade patterns and capital flows. The U.S. tariff policy not only raises the cost of exports for relevant countries and regions but also has a significant impact on the risk and return of cross-border investments. Especially for countries and regions with large trade surpluses with the U.S., changes in tariff policy directly affect the international competitiveness of enterprises and investment decisions. Chen Wanling and other scholars said: tariffs increse the cross-border flow of intermediate products adds extra costs, and the risk of cross-border investment will be higher than that of domestic investment. If the tariff rate remains unchanged, direct exports to the United States from countries and regions such as China and Vietnam, which are subject to high tariffs, will decline [14]. The U.S. tariff policy increases the cost of imported goods by raising tariff rates, thus impacting firms that rely on imported raw materials or components. Such policies not only affect firms' production costs, but also negatively impact the stability and efficiency of global supply chains. For example, in March 2025, the U.S. government resumed imposing 25% tariffs on steel and aluminum products and expanded the coverage of tariffs on Chinese electric vehicles, semiconductors, and other areas [15]. This policy has directly led to higher export costs and a more complex trade environment for many Chinese firms that rely on the U.S. market.

Against this backdrop, many U.S. dollar-denominated funds with operations in China have chosen to accelerate their cuts with their parent funds to avoid geopolitical risks. This realignment reflects not only the sensitivity of private equity organizations to risk, but also the far-reaching impact of tariff policies on global capital flows. Nonetheless, many investors remain highly interested in companies with growth potential. Data shows that total private investment in financial services and technology companies increased by 28% year-on-year to $67 billion in 2023, representing 22% of total private investment, up from 15% in 2022 [15]. This suggests that despite the increased investment risks associated with tariff policies, private equity organizations are still inclined to invest in areas with high growth potential.

3.2 The impact of tariffs on subject company valuation

Company valuation is a key factor in private equity investment decisions, and the uncertainty of tariff policies significantly increases the complexity and risk of business operations, which directly affects the valuation of companies. Company valuation is mainly determined by the following aspects: underlying financial factors (e.g., profitability, cash-flow generation, growth), valuation multipliers, and the macro environment (e.g., exchange rate fluctuations, trade protectionism, geopolitical risks, etc.).

Wang Yizhi et al. found that higher risk will reduce the value of the company [16]. U.S. tariff policies and global trade protectionism have led to increased uncertainty in the economic environment, making it more difficult to judge the expectations of firms' future development. This uncertainty not only leads to a reduction in the scale of corporate investment but also has a serious impact on the external financing activities of firms and undermines the external financing environment [17]. Especially for firms that rely on the U.S. market, their valuations need to be additionally discounted by the high tariff cost of the discount rate.

For example, Liu Hang et al. found that industries and technology-intensive firms located in the upstream of the global value chain (GVC) and with high dependence on U.S. exports are riskier by analyzing the GVC location-value added contribution ratio [18]. Risk identification and assessment is more difficult for technology-intensive firms due to their high technological innovation and fast-changing market environments. The uncertainty of technological innovation and the rapid fluctuation of market demand increase the risk of technology-based enterprises [19].

Ding Haojian et al. also showed that rising tariffs increase the cost of maintaining the original supply chain, which in turn increases the financial risk and uncertainty of enterprises. Specifically, for every 10% increase in tariffs, the risk of supply chain disruption for Chinese intermediate goods exporters will increase by 12.3% [20]. This increased risk not only affects the short-term financial performance of firms but also has a profound impact on their long-term development.

3.3 Cross-border M&A transaction costs increase

Cross-border M&A involves transactions and integration between firms from different countries, and foreign M&A can increase the level of risk-taking of enterprises [21].

However, the implementation of the U.S. tariff policy will directly lead to a surge in transaction costs and structuring of investment risks in cross-border M&A in the short term.

Research shows that the uncertainty of international economic policies can have a significant negative effect on cross-border M&A. Wu Xianming and other scholars, using Chinese A-share listed companies that engage in cross-border M&A as a research sample, found that tariff fluctuations and trade frictions increase trade uncertainty in the short term [22]. The tariff stacking of benchmark tariffs, additional tariffs, and the original 301 tariffs in the U.S. "reciprocal tariffs" leads to supply chain cost reconstruction. Taking China's cross-border M&A transactions as a sample, the econometric model points out that for every 1% increase in the economic policy uncertainty index, the amount of cross-border M&A transactions announced by Chinese enterprises decreases by about 1%, indicating that global economic policy uncertainty has a significant inhibitory effect on the cross-border M&A of Chinese enterprises [23].

According to the data of CVSource, the number of cross-border transaction cases in 2023 decreased by 4.25% year-on-year, of which the transaction size of the disclosed amount decreased by 4.25% year-on-year. Among them, the size of deals with disclosed amounts fell 49.27% year-on-year, which is about 1/12th of the size in 2017. The rapid rise in interest rates led to a significant decline in deals, launches and financing, and private equity continues to struggle in 2023 [24]. This trend not only reflects the direct impact of tariff policies on cross-border M&A but also reveals the broader impact of global economic uncertainty on investment activity.

3.4 Private equity exits fluctuations

China's private equity exits methods mainly include IPOs, M&A, secondary market transfers, management share buybacks, and liquidation exits. The principle of private equity exit method selection is to maximize the capital appreciation of private equity investment.

The 24,300 exit cases occurring in China from 2012 to 2021 show that IPO listing is the most dominant exit method, accounting for nearly half of the total, and China's exit method is highly dependent on IPO [25].

Nowadays, the stacked tariffs in the United States and the global trade barriers have increased valuation uncertainty. This has narrowed the exit path for overseas listings, leading private equity (PE) funds to rely more on domestic M&A (M&A), secondary market funds (S-funds), and other non-public market exits. Rising tariffs have also promoted the integration of domestic industrial chains, favoring domestic M&A exits.

The total number of M&A deal cases grew continuously from 2019 to 2021. However, the volume of deals declined in 2022-2023 due to macroeconomic uncertainty, geopolitical risks, and other factors. Despite this, the share of private equity fund M&A deals in the total number of M&A deal cases continued to rise from 2019 to 2023. This indicates that M&A exits are gradually becoming an important channel for private equity fund exits.

By the end of 2023, the exit principal of private equity funds was only 23% of the invested principal, with a project exit rate of 31%. A large number of private equity funds had reached their exit period but were unable to exit [26].

When economic policy uncertainty rises, firms are more likely to postpone irreversible investments and M&A [27]. This trend not only reflects the direct impact of tariff policies on private equity exit paths but also reveals the broader impact of global economic uncertainty on investment activity.

3.5 Summary

Changes in tariff policy have had a profound impact on private equity investment in many ways. From the changes in the trade environment under the U.S. “reciprocal tariff” policy, to the impact on the valuation of target companies, to the increase in cross-border M&A transaction costs and the fluctuation in the exit paths of private equity investments, tariff policies not only increase the operating costs and risks of enterprises, but also change the decision-making and exit strategies of private equity investments. Private equity firms need to reassess the valuation of their investment targets in an uncertain economic environment, adjust their investment strategies, and consider more flexible exit options to meet the challenges posed by the tariff policy. At the same time, companies need to reduce their dependence on traditional markets through technological innovation and supply chain optimization to enhance their competitiveness and risk resistance ability.

4 Conclusion

This study explores the impact of tariff policy on private equity investment, analyzes around four core issues and draws the following conclusions:

Tariff policy significantly affects the industry preference and investment decision of private equity investment. As traditional industries, manufacturing and technology-based companies with tight global supply chains are more affected by tariff policies, private equity firms prefer technology innovation and healthcare to avoid the risks associated with highly tariff-sensitive industries.

Tariffs add complexity and risk to business operations, which in turn affects valuation. Valuations of companies dependent on the U.S. market need to additionally deduct the discount rate for high tariff costs, especially in industries that are highly dependent on U.S. exports and technology-intensive companies.

High tariffs change the exit paths and methods of private equity investments. Due to the contraction of exit paths for overseas listings, PE funds are relying more on domestic M&A, S-funds and other non-public market exit methods, indicating that M&A exits are gradually becoming an important channel.

Private equity institutions responded to the risks and uncertainties arising from tariff policies through various strategies. Institutions have reassessed the valuation of target companies, adjusted their investment strategies, adopted valuation adjustment mechanisms such as “betting agreements”, and incorporated tariffs into pre-investment due diligence. At the same time, companies are reducing their reliance on traditional supply chains through technological upgrades, while institutions are exploring opportunities through risk management.

Although this study reveals the impact of tariffs on private equity investment, there are still limitations. The study mainly focuses on the short-term impact and lacks an in-depth analysis of the long-term impact; it is based on existing literature and data and lacks in-depth research on specific enterprise cases; and it mainly focuses on tariff policies in the context of the U.S.-China trade friction, with less analysis of policy changes in other countries and regions.

Future research can be carried out in the following directions: in-depth exploration of the impact of tariff policies on long-term corporate development and long-term strategies of private equity investment; enrichment of the empirical basis of the study through case studies of specific enterprises; comparison of the differences in the impact of tariff policies on private equity investment in different countries; and proposal of targeted policy recommendations based on the impact of tariff policies.

This study hopes to provide new insights for understanding the complex relationship between tariff policies and private equity investment, as well as provide references for relevant stakeholders when dealing with tariff pressure.

References

1. B. Sheng, C. Jin, “Trumpism” trade behavior and US-China economic and trade relations. International Trade Issues. **1**, 1002-4670, 19-33 (2025) https://doi.org/0.13510/j.cnki.jit.2025.01.005
2. L. Shu, W. Wang, X. Cao, Trade policy uncertainty, firm exports and outward foreign direct investment. International Trade Issues. **8**, 1002-4670 (2024) https://doi.org/0.13510/j.cnki.jit.2024.08.002
3. M. K. W. Robbie, Venture capital and private equity: a review and synthesis. Journal of Business Finance & Accounting. **25** (2003) https:/doi.org/10.1111/1468-5957.00201
4. S. J. Davis, J. C. Haltiwanger, R. S. Jarmin, J. Lerner, J. Miranda, Private equity and employment, Working Paper .US Census Bureau Center for Economic Studies (2008)
5. J. Lerner, R. Nanda, The role of venture capital in financing innovation: what we know and what we still need to know. Econ Perspect **34(3)**, 237-261 (2020)
6. T. Standaert, M. Knockaert, S. Manigart, Venture capital winners: an allocation approach to high-risk investments to support firm growth. Br J Manag **33**, 211–230 (2022)
7. X. Wang, L. Yan, Study on the motivation and post-investment performance of introducing private equity investments. Journal of Hubei University of Economics.**22** (2025)
8. S. Zhang，Z. Xu, J. Zhu, X. Xiang, Z. Yin, Impact of private equity investment on the high-quality development of enterprises: research on the mediating effect based on information asymmetry. China Soft Science. **12**, 132-144 (2024)
9. H. Xu, D. Wan, J. Xu, Risk investment background, shareholding ratio and R&D investment of startups. scientific research. **33**, 1003-2053 (2015)
10. Y. Wang, C. Tang, M. Yan, Z. Luo, Research on the growth of private equity financing methods for small and medium-sized enterprises with different life cycles. Finance and Economics Theory and Practice. **40**, 1003-7217, 72-77 (2019) https://doi.org/10.16339/j.cnki.hdxbcjb.2019.06.054
11. K. Ye, J. Ran, M. Chen, Investment risk evaluation of private equity funds based on empirical probability distribution. Mathematical Statistics and Management. **41**, 1002-1566, 541-553 (2022)
12. X. Fu, J. Xie, Government guiding funds, technological diversification and dual innovation of enterprises--an essay on the moderating role of innovative industrial clusters. Finance and Economics Series (2025) https://doi.org/10.13762/j.cnki.cjlc.20250530.001
13. Y. Wang, Characterization of the behavioral analysis of venture capital and other institutions investing in growth enterprise board companies. Securities Market Herald. 36-42 (2010)
14. W. Chen, X. Tu, H. Wei, M. Zhou, J. Huang, The impact of u.s. “reciprocal tariffs” on global economic and trade patterns and china's countermeasures. International Business Research.1006-1894 (2025) https://doi.org/10.13680/j.cnki.ibr.20250430.001
15. G. Ding Guorong, Opportunities and challenges facing cross-border private equity investment. China Finance. **22**, 50-52 (2024)

16. Y. Wang, M. Yao, M. Ji, An empirical study on valuation of listed companies on gem - the influence and function of non-cash flow factors. new finance. **11**, 1006-1770 (2020)
17. G. Xu, Z. Sun, X. Liu, The impact of economic policy uncertainty on firms' investment structure bias - empirical evidence based on China's EPU index. Management Review. **32**, 246-261 (2020) https://doi.org/10.14120/j.cnki.cn11-5057/f.2020.01.021
18. H. Liu, N. Nan, Z. Sun, Identification of industry characteristics and coping strategies for China's exposure to U.S. tariff barriers-based on the measurement of GVC position-value added contribution. International Trade. **32**, 246-261 (2024) https://doi.org/10.14120/j.cnki.cn11-5057/f.2020.01.021
19. Y. Zhang, Exploring the role of private equity investment in the financing of science and technology-based enterprises. International Business and Finance **21**, 88-91 (2024)
20. H. Ding, W. Dong, X. Yu, A study on cross-border supply chain rupture and reconstruction under trade policy shocks. Economic Research. **59**, 95-113 (2024)
21. Q. Sui, Y. Feng, Foreign mergers and acquisitions and corporate risk taking.WEPF. **6**, 122-139 (2023)
22. X. Wu, M. Wang, How do trade frictions affect firms' degree of internationalization? Foreign Economics and Management. **47**, 17-34 (2025) https://doi.org/10.16538/j.cnki.fem.20241128.202
23. J. Qian, L. Zhou, Economic policy uncertainty, institutional distance and cross-border mergers and acquisitions of Chinese firms. Modern Economic Discussion.**10**, 1009-2382, 43-57 (2024) https://doi.org/10.13891/j.cnki.mer.2024.10.007
24. G. Liu, Development dynamics, international comparison and suggestions of China's private equity market. International Finance. **10**, 53-62 (2024) https://doi.org/10.16474/j.cnki.1673-8489.2024.10.007
25. X. Xiao, S. Li, Discussion on the exit mechanism of private equity market. China Finance. **2**, 66-68 (2023)
26. J. Wang, Analysis of exit methods and optimization strategies of private equity investment funds - based on M&A and S-fund perspectives. Western Finance and Economics. **3**, 37-41 (2025)
27. W. Meng, G. Jiang, Y. Zhang, Exchange rate uncertainty and corporate cross-border mergers and acquisitions. Financial Studies. **5**, 1002-7246 (2021)